

LAUDERDALE COUNTY WATER SYSTEM

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

LAUDERDALE COUNTY WATER SYSTEM
FINANCIAL STATEMENTS
Year Ended June 30, 2014

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Introductory Section

LAUDERDALE COUNTY WATER SYSTEM
Roster of Board Members and Management
For the Year Ended June 30, 2014

BOARD MEMBERS:

John Ewer

Joe Larry Ferguson

William H. Jarrett

Rick Jenkins

EX- OFFICIO MEMBERS:

Sandra Hughes

Angie Phillips

MANAGEMENT:

Randy Newman, Superintendent

Stacy Crowder, Office Manager

Financial Section

William M. Harmon

Certified Public Accountant

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Ripley, TN 38063-0491
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Lauderdale County Water System
Ripley, Tennessee 38063

Report on the Financial Statements

I have audited the accompanying financial statements of The Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Lauderdale County Water System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Lauderdale County Water System as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lauderdale County Water System's financial statements as a whole. The introductory section and accompanying financial information listed as other supplementary information in the table of contents includes supplementary information that is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except that marked "unaudited" on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and supplementary information marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated December 26, 2014, on my consideration of the Lauderdale County Water System's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lauderdale County Water System's internal control over financial reporting and compliance.



William Harmon
Certified Public Accountant
Ripley, Tennessee
December 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Lauderdale County Water System's financial performance provides an overview of the System's financial activities for the fiscal year ended June 30, 2014. Management encourages readers to consider the information presented here in conjunction with the System's financial statements.

Financial Highlights

- The assets of the Lauderdale County Water System exceeded its liabilities at the close of the most recent fiscal year by \$6,246,704 (*net position*). Of this amount, \$2,391,524 (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining amount, \$3,855,180 (*invested in capital assets*) reflects the net position invested in capital assets.
- The total net position increased by \$143,397 for the fiscal year ended June 30, 2014.
- The Water System ended the year June 30, 2014 with cash and investments of \$2,445,884, representing an increase of \$378,332 over the prior year. None of this cash is restricted for specific purposes. As identified by the Statement of Cash Flows, this increase was due to an increase in the water rates and maintaining current levels of expenses. In the previous fiscal year the System also paid off its debt thus eliminating interest expense for the current fiscal year.

Overview of the Financial Statements and Supplementary Information

This discussion and analysis is intended to serve as an introduction to the Lauderdale County Water System's financial statements which consist of two components: fund financial statements and notes to the financial statements.

As an enterprise fund, the financial statements of Lauderdale County Water System are presented on the full accrual basis, presenting assets and liabilities of the Water System in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Lauderdale County water System's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water System is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected water revenue and earned but unused employee compensated absences).

The *statement of cash flows* reports cash and cash equivalent activities for the fiscal year resulting from operating activities, capital and related financing activities, non-capital and related financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal year.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Lauderdale County Water System, assets exceeded liabilities by \$6,246,704 at the close of the fiscal year.

The largest portion of the Water System's assets, (60%), are investments in property, plant and equipment, followed by investments, (18%), and cash and cash equivalents, (20%). The investment in property, plant and equipment are used to provide services to citizens. Consequently, these assets are not available for future spending.

Table 1
Lauderdale County Water System's Net Position

	For the Years Ending June 30,		Increase	
	2014	2013	(Decrease)	%Change
Current Assets	\$ 2,616,753.00	\$ 2,232,171.00	384,582.00	17.23%
Net Property Plant & Equipment at Cost	3,855,180.00	4,097,382.00	(242,202.00)	-5.91%
Total Assets	\$ 6,471,933.00	\$ 6,329,553.00	142,380.00	2.25%
Current Liabilities	\$ 225,230.00	\$ 226,246.00	(1,016.00)	-0.45%
Long-Term Liabilities	0.00	0.00	0.00	0.00%
Total Liabilities	\$ 225,230.00	\$ 226,246.00	(1,016.00)	-0.45%
Net Invested In Capital Assets Net of Related Debt	3,855,180.00	4,097,382.00	(242,202.00)	-5.91%
Net Position - Unrestricted	2,391,524.00	2,005,925.00	385,599.00	19.22%
Total Net Position	6,246,704.00	6,103,307.00	143,397.00	2.35%
Total Liabilities and Net Position	\$ 6,471,934.00	\$ 6,329,553.00	142,381.00	2.25%

Table 2
Lauderdale County Water System's
Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2014	June 30, 2013	Increase (Decrease)	
			\$	%
Operating Revenues	\$ 1,295,040.00	\$ 1,184,208.00	\$ 110,832.00	9.36%
Total Revenues	\$ 1,295,040.00	\$ 1,184,208.00	\$ 110,832.00	9.36%
Operating Expenses				
Salaries	\$ 327,126.00	\$ 351,146.00	\$ (24,020.00)	-6.84%
City Water Purchased	133,603.00	180,159.00	(46,556.00)	-25.84%
Depreciation	267,800.00	273,234.00	(5,434.00)	-1.99%
Insurance expense	68,080.00	79,104.00	(11,024.00)	-13.94%
All Other Operating Expenses	363,359.00	366,692.00	(3,333.00)	-0.91%
Total Operating Expenses	\$ 1,159,968.00	\$ 1,250,335.00	\$ (90,367.00)	-7.23%
Total Non-Operating Revenues (Expenses)	\$ 8,324.00	\$ (18,665.00)	\$ (26,989.00)	-144.60%
Capital Contributions	\$ -	\$ -	\$ -	
Change in Net Position	\$ 143,396.00	\$ (84,792.00)	\$ 228,188.00	-269.12%
Net Position - Beginning	6,103,307.00	6,188,099.00	(84,792.00)	-1.37%
Net Position - Ending	\$ 6,246,703.00	\$ 6,103,307.00	\$ 143,396.00	2.35%

Capital Assets

The Lauderdale County Water System's investment in capital assets was \$3,855,180 (net of accumulated depreciation) as of June 30, 2014. This was a net decrease of \$242,202 from the prior year. This decrease is primarily due to depreciation of the assets. Capital assets include water processing plants, water towers, pumping stations, water lines and operating structures necessary to provide water service to customers.

Debt

No new debt was incurred in the fiscal year ending 2014. The previous long term debt was paid off in the fiscal year ended June 30, 2013 using the Systems fiscal reserves.

Future Projections

The primary goals of the Lauderdale County Water System are to continue providing quality and efficient services to the water customers of Lauderdale County. The System continues to work to improve the services offered and improve the plant and system for the benefit of the customers.

Requests for Information

This financial report is intended to provide an overview of the Water System's finances for those with an interest in this organization. Questions concerning any information within this report may be directed to the Superintendent of Lauderdale County Water System, P.O. Box 527, Ripley, TN 38063.

Randy Newman
Superintendent
Lauderdale County Water System

LAUDERDALE COUNTY WATER SYSTEM

Statement of Net Position

As of June 30, 2014

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,295,884
Investments	1,150,000
Accounts Receivable	122,039
Prepaid Expenses	3,931
Inventory	44,899

TOTAL CURRENT ASSETS

\$ 2,616,753

PROPERTY, PLANT, AND EQUIPMENT (at cost)

Utility plant in service	\$ 8,295,369
Equipment	440,542
Less: Accumulated Depreciation	<u>(4,880,731)</u>

NET PROPERTY, PLANT, AND EQUIPMENT

3,855,180

TOTAL ASSETS

\$ 6,471,934

LIABILITIES AND NET POSITION

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 3,437
Accrued Interest	-
Bonds Payable - Current	-
Accrued Wages	23,819
Customer Meter Deposits	197,974

TOTAL CURRENT LIABILITIES

\$ 225,230

LONG-TERM LIABILITIES

Bonds Payable (net of current portion)	\$ -
--	------

TOTAL LONG-TERM LIABILITIES

-

TOTAL LIABILITIES

\$ 225,230

NET POSITION

Invested in Capital Assets	\$ 3,855,180
Restricted	-
Unrestricted	<u>2,391,524</u>

TOTAL NET POSITION

\$ 6,246,704

TOTAL LIABILITIES AND NET POSITION

\$ 6,471,934

The Notes to the Financial Statements are an Integral Part of This Statement.

LAUDERDALE COUNTY WATER SYSTEM
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2014

Operating Revenues		
Water Revenues	\$	1,214,361
Other Revenue		76,584
Sale of Material		<u>4,096</u>
Total Operating Revenues	\$	<u>1,295,041</u>
Operating Expenses		
City Water Purchased	\$	133,603
Salaries		327,126
Contract Meter Reading		42,862
Payroll Tax Expense		25,603
Retirement Expense		25,700
Uniform & Clothing		3,048
Commissioners' Compensation		5,014
Postage		9,016
Freight Charges		27
State Fees		6,153
Membership Fees		3,030
Public Relations		606
Electrical		102,734
Gas - Heating		2,491
Phone		3,250
Lab Tests & Lab Expense		4,902
Professional Fees		4,350
Engineering Expense		693
Truck Repairs Expense		1,458
Backhoe Repairs		282
Ditcher Repairs		888
Radio Repairs Expense		2,067
Tires & Tire Repairs		1,816
Fuel Expense		21,361
Line Repairs & Maintenance		3,490
Plant Repairs & Maintenance		16,672
Travel - Staff & Board		-
Office Expense		15,344
Chemical Expense		21,146
Supplies - Lab		1,143
Supplies - Miscellaneous		1,685
Supplies - Repair		36,259
Insurance expense		68,080
Depreciation		267,800
Bank Service Charges		<u>269</u>
Total Operating Expenses	\$	<u>1,159,968</u>
Operating Income (Loss)	\$	<u>135,073</u>
Nonoperating Revenues (Expenses)		
Interest Income	\$	8,517
Interest Expense		-
Sale of Assets		<u>(193)</u>
Total Nonoperating Revenues (Expenses)	\$	<u>8,324</u>
Change in Net Position	\$	<u>143,397</u>
Net Positon - July 1, 2013	\$	<u>6,103,307</u>
Net Position - June 30, 2014	\$	<u><u>6,246,704</u></u>

The Notes to the Financial Statements are an Integral Part of This Statement

LAUDERDALE COUNTY WATER SYSTEM
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITY:		
Cash received from customers	\$ 1,302,606	
Cash paid to suppliers of goods & services	(518,560)	
Cash paid to employees for services	(388,440)	
NET CASH PROVIDED BY OPERATING ACTIVITIES		\$ 395,606
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Bond Payments	\$ -	
Construction and Acquisition of plant and equipment	(25,792)	
Interest Paid	-	
Sale of Assets	-	
Lease Payments	-	
Notes Payable	-	
NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES		(25,792)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income on Investments	\$ 8,517	
Redemption of Investments	-	
NET CASH FLOWS FROM INVESTING ACTIVITIES		\$ 8,517
NET INCREASE (DECREASE) IN CASH		\$ 378,331
CASH AND CASH EQUIVALENTS - July 1, 2013		\$ 917,553
CASH AND CASH EQUIVALENTS - June 30, 2014		\$ 1,295,884
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:		
OPERATING INCOME		\$ 135,072
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	\$ 267,800	
(Increase) Decrease in Current Assets:		
Accounts Receivable	(8,042)	
Prepaid Expenses	1,609	
Inventory	182	
Increase (Decrease) in Current Liabilities		
Accounts Payable	(5,322)	
Accrued Wages	(4,997)	
Customer Meter Deposits	9,304	
Total Adjustments		260,534
NET CASH FLOWS FROM OPERATING ACTIVITIES		\$ 395,606

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lauderdale County Water System (the Water System) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Lauderdale County Water System (the Water System), a component unit of Lauderdale County, Tennessee, was created in 1974. These financial statements are limited to the assets, liabilities, fund balance, and results of operations of the Lauderdale County Water System. They are not intended to present the assets, liabilities, fund balances and results of operations of Lauderdale County taken as a whole. The County Commission of Lauderdale County appoints the five member Commissioners of the Lauderdale County Water System, approves the operating budget of the Water System and is liable for any unpaid debt of the Water System. The Water System provides water service to unincorporated areas of Lauderdale County, Tennessee.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

The Water System is a proprietary fund; its operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives essentially equal values. Non-operating revenues, such as interest income, result from non-exchange transactions or ancillary activities.

Only one fund is presented within these financial statements.

b. Measurement Focus, Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Water System, the reporting entity. Revenues are reported when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

3. Financial Statement Amounts

a. Deposits and Investments

The Water System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Under the laws of Tennessee the Water System is authorized to invest with obligations of the United States or its agencies, direct obligations of the State of Tennessee or its agencies, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, certificates of deposit if

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

insured by a Federal Deposit Insurance Corporation or the Tennessee Collateral Pool. During the year ended June 30, 2014 the Water System did not own any types of securities other than those permitted by statute.

Investments for the Water System are in the form of Certificates of Deposits and are reported at fair value.

b. Capital Assets

Purchased or constructed capital assets are reported at cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are being depreciated using the straight-line method over the following useful lives:

	<u>Estimated Useful Life</u>
Utility plant in service	10-50 years
Equipment	2-10 years

c. Receivables

Accounts receivable arise from water services rendered to the customers of the Water System. The board of directors authorizes write-downs of customer billings due to leaks and write-offs of accounts considered uncollectible. Amounts subsequently collected from a bad-debt write-off are recorded as income.

d. GASB Statements

The System adopted Governmental Accounting Standards Board (GASB) Statement #62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements*, required for fiscal periods beginning after December 15, 2011, in 2013. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance, included in certain FASB and AICPA pronouncements issued prior to November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of this Statement did not have a material effect on the System's financial condition or results of operations.

The System also adopted GASB Statement # 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in 2013. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in statement of financial position. The statement was implemented retroactively and resulted in a change in presentation of the balance sheet to what is now referred to as the statement of net position and the term "net assets" was changed

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

to “net position” throughout the financial statements. The adoption of the Statement did not impact amounts reported in the financial statements.

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

f. Compensated Absences

The Water System accrues vacation and compensated time for its employees to use in future periods.

g. Inventory

Inventory of supplies are recorded at historical cost using the first in-first out method.

h. Risk Management

The Water System is exposed to various risks of loss related to tort; theft of, or damage to assets; errors and omissions; injuries to employees and natural disasters. During the year ended June 30, 2013, the Water Service was covered by insurance for these various risks at a cost it considered to be economically justifiable. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

i. Restricted Resources

The Water System elects to use restricted assets before unrestricted assets when the situation arises where either can be used.

LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 2: DEPOSITS AND INVESTMENTS

The System's deposits and investments at June 30, 2014 consist of the following:

Deposits:	
Cash On Hand	\$ 245
Cash In Bank	485,659
Cash On Deposit Through County Trustee	<u>431,648</u>
Total Cash and Cash Equivalents	<u>\$ 917,552</u>
Investments:	
Certificates of Deposits Managed by County Trustee	<u>\$ 1,150,000</u>

The Water System's deposits and investments at June 30, 2014 were covered by federal depository insurance or by the Tennessee Collateral Pool or by securities held by the custodial bank in the County Trustee's name.

Interest rate risk. To minimize exposure to declines in fair value, the certificates of deposit have staggering maturity rate with maturity dates of one year.

Custodial credit risk. The certificates of deposit are held in the County Trustee's Office name for the benefit of the Water System, and are not subject to custodial credit risk.

Concentrations of credit risk. The certificates of deposit are not subject to concentrations of credit risk as the custodial banks are either a member of the Tennessee Collateral Pool or provide securities held by the custodial bank as security for the funds invested.

NOTE 3: CAPITAL ASSETS

Capital asset activity was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital Assets Not Being Depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Capital Assets Being Depreciated:				
Water Plant	8,264,879	20,490	-	8,285,369
Plant Equipment	90,390	4,457	-	94,847
Office Equipment	51,154	845	902	51,097
Equipment	<u>294,599</u>	<u>-</u>	<u>-</u>	<u>294,599</u>
Total Capital Assets Being Depreciated	8,701,022	25,792	902	8,725,912
Less - Accumulated Depreciation For:				
Water Plant	4,312,791	232,606	-	4,545,397
Plant Equipment	46,405	6,225	-	52,630
Office Equipment	38,680	5,145	709	43,116
Equipment	<u>215,764</u>	<u>23,825</u>	<u>-</u>	<u>239,589</u>
Total Accumulated Depreciation	<u>4,613,640</u>	<u>267,801</u>	<u>709</u>	<u>4,880,732</u>
Total Capital Assets Being Depreciated Net	<u>4,087,382</u>	<u>(242,009)</u>	<u>193</u>	<u>3,845,180</u>
Business-Type Activities Capital Assets - Net	<u>\$ 4,097,382</u>	<u>\$ (242,009)</u>	<u>\$ 193</u>	<u>\$ 3,855,180</u>

**LAUDERDALE COUNTY WATER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 4: BONDS PAYABLE

The Water System's bond payable/ loans were retired as of June 30, 2013.

NOTE 5: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

An annual budget is adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. Some expenditures exceeded appropriations.

NOTE 6: CONCENTRATION OF CREDIT RISK

The Water System receives its operating funds from fees charged to water customers in Lauderdale County, Tennessee. While the Water System has a broad consumer base, the ability of customers to pay their accounts is dependent on the economic conditions of the area.

NOTE 7: RETIREMENT PLAN

The pension fund of the Lauderdale County Water System is included in the total retirement program for Lauderdale County, Tennessee under the Tennessee Consolidated Retirement System. Five percent (5%) is deducted from the employee's checks and the county pays a percentage match of 8.87% to fund the employee's retirement. Retirement is based on thirty years of service or reaching the age of sixty. For details relative to the funding status and progress, actuarial determined contribution requirements and contributions made, and trend information refer to the Comprehensive Annual Financial Report for Lauderdale County.

NOTE 8: SUBSEQUENT EVENTS

The subsequent events have been evaluated through December 23, 2014, which is the date the financial statements were available to be issued. There were no significant events noted.

Supplementary Information



AWWA Free Water Audit Software Reporting Worksheet Unaudited

V4.0 2014

AWWA Free Water Audit Software
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Water Audit Report for: **Lauderdale County Water System (0000581)**
Reporting Year: **2014** **7/2013 - 6/2014**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

Enter grading in column 'E' and 'J'

Volume from own sources:			7	224.401	MG/Yr
Water imported:			7	44.706	MG/Yr
Water exported:			n/a	0.000	MG/Yr

Master Meter and Supply Error Adjustments

Pcnt:			3	Value:			3	MG/Yr
			3	-3.00%			3	MG/Yr
			3				3	MG/Yr

Enter negative % or value for under-registration
Enter positive % or value for over-registration

WATER SUPPLIED: **270.490** MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:			7	177.894	MG/Yr
Billed unmetered:			n/a	0.000	MG/Yr
Unbilled metered:			5		MG/Yr
Unbilled unmetered:				3.381	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: **181.275** MG/Yr

Click here: for help using option buttons below

Pcnt:			3	Value:			3	MG/Yr
			3	1.25%			3	MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt:			3	Value:			3	MG/Yr
			3	0.25%			3	MG/Yr

		3	5.00%			3	MG/Yr
		3	0.25%			3	MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

89.215 MG/Yr

Apparent Losses

Unauthorized consumption: 7 0.676 MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:			5	9.363	MG/Yr
Systematic data handling errors:				0.445	MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

Apparent Losses: **10.484** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 7 **78.731** MG/Yr

WATER LOSSES: **89.215** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 7 **92.596** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:			5	650.0	miles
Number of active AND inactive service connections:			7	4,792	
Service connection density:				7	conn./mile main

Are customer meters typically located at the curbstop or property line? 7 Yes

Average length of customer service line 7

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure: 7 3 55.0 psi

(length of service line, beyond the property boundary, that is the responsibility of the utility)

COST DATA

Total annual cost of operating water system:			10	\$1,248,146	\$/Year
Customer retail unit cost (applied to Apparent Losses):			8	\$6.00	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):			5	\$543.45	\$/Million gallons

☐ Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 67 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Customer metering inaccuracies
- 3: Variable production cost (applied to Real Losses)



AWWA Free Water Audit Software:
System Attributes and Performance Indicators Unaudited

WAS v5.0

American Water Works Association
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Water Audit Report for: **Lauderdale County Water System (0000581)**

Reporting Year: **2014** **7/2013 - 6/2014**

*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 67 out of 100 ***

System Attributes:

Apparent Losses:	10.484	MG/Yr
+ Real Losses:	78.731	MG/Yr
= Water Losses:	89.215	MG/Yr

Unavoidable Annual Real Losses (UARL): 85.02 MG/Yr

Annual cost of Apparent Losses: \$62,903

Annual cost of Real Losses: \$42,786 Valued at Variable Production Cost

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied: 34.2%
Non-revenue water as percent by cost of operating system: 8.6% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 5.99 gallons/connection/day
Real Losses per service connection per day: N/A gallons/connection/day
Real Losses per length of main per day*: 331.85 gallons/mile/day
Real Losses per service connection per day per psi pressure: N/A gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 78.73 million gallons/year

Infrastructure Leakage Index (ILI) [CARL/UARL]: 0.93

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

LAUDERDALE COUNTY WATER SYSTEM
Schedule of Current Utility Rates in Force
For the Year Ended June 30, 2014

WATER RATES:

Prior to March 2014		
Minimum bill up to 2,000 gal.	\$	11.00
Over 2,000 gallon minimum		5.75 per 1,000 gallons
After March 2014		
Minimum bill up to 2,000 gal.	\$	11.00
Over 1,500 gallon minimum		6.00 per 1,000 gallons

of customers as of June 30, 2014 3,846

See Independent Auditor's Report

LAUDERDALE COUNTY WATER SYSTEM
Comparison of Actual Revenues and Expenditures to Budgeted Revenues and Expenditures
For the Fiscal Year Ended June 30, 2014

	Original	Budget Final	Actual June 30, 2014	Variances To Final Budget
Operating Revenues				
Water Sales	\$ 1,350,000	\$ 1,350,000	\$ 1,220,664	(129,335.92)
Water Sales - Bad Debts Collected	2,500	2,500	1,711	(788.95)
Other Revenue	15,000	15,000	3,584	(11,415.72)
Penalties Income	50,000	50,000	47,275	(2,724.90)
Service Installation	10,000	10,000	4,800	(5,200.00)
Reconnections	16,000	16,000	19,202	3,201.50
Sale of Material	2,500	2,500	4,096	1,595.51
Over/(Short)	-	-	12	12.05
Total Operating Revenues	\$ 1,446,000	\$ 1,446,000	\$ 1,301,344	(144,656.43)
Operating Expenses				
City Water Purchased	\$ 190,000	\$ 190,000	\$ 133,603	56,397.46
Salaries	370,000	370,000	327,126	42,873.68
Contract Meter Reading	45,000	48,000	42,862	5,138.14
Bad Debt Expense	4,000	8,000	6,303	1,697.22
Payroll Tax Expense	30,000	30,000	25,603	4,397.11
Retirement Expense	28,000	28,000	25,700	2,299.91
Uniform & Clothing	3,000	3,300	3,048	251.90
Commissioners' Compensation	9,000	9,000	5,014	3,986.00
Postage	15,000	15,000	9,016	5,984.23
Freight	300	300	27	272.94
Licenses	300	300	-	300.00
State Fees	9,000	9,000	6,153	2,846.82
Membership Fees	3,000	3,150	3,030	120.00
Public Relations	1,000	1,000	606	394.43
Electrical	110,000	110,000	102,734	7,265.51
Gas - Heating	2,500	2,500	2,491	8.57
Phone	3,000	3,250	3,250	0.00
Lab Tests & Lab Expense	5,000	5,000	4,902	97.96
Professional Fees	5,500	5,500	4,350	1,150.00
Engineering Expense	2,000	2,000	693	1,307.50
Truck Repairs Expense	5,000	5,000	1,458	3,542.43
Backhoe Repairs	2,000	2,000	282	1,717.71
Ditcher Repairs	2,000	2,000	888	1,112.11
Radio Repairs Expense	10,000	10,000	2,067	7,932.64
Tires & Tire Repairs	2,000	3,000	1,816	1,183.88
Fuel Expense	30,000	30,000	21,361	8,639.05
Line Repairs & Maintenance	10,000	10,000	3,490	6,510.42
Plant Repairs & Maintenance	20,000	20,000	16,672	3,327.69
Travel - Staff & Board	1,500	1,500	-	1,500.00
Office Expense	19,000	19,000	15,344	3,656.05
Chemical Expense	25,000	25,000	21,146	3,854.11
Supplies - Lab	2,000	2,000	1,143	856.74
Supplies - Miscellaneous	3,000	3,000	1,685	1,315.38
Supplies - Repair	45,000	45,000	36,259	8,740.69
Insurance expense	100,000	100,000	68,080	31,920.08
Depreciation	270,720	270,720	267,800	2,920.00
Bank Service Charges	600	600	268	332.17
Deposit Expense	100	100	-	100.00
Total Operating Expenses	\$ 1,383,520	\$ 1,392,220	\$ 1,166,269	\$ 225,950.53
Operating Income (Loss)	\$ 62,480	\$ 53,780	\$ 135,074	\$ 81,294.10
Nonoperating Revenues (Expenses)				
Interest Income	\$ 20,000	\$ 20,000	\$ 8,517	\$ (11,483.11)
Interest Expense	-	-	-	0.00
Sale or Disposal of Assets	-	-	(193)	(193.00)
Total Nonoperating Revenues (Expenses)	\$ 20,000	\$ 20,000	\$ 8,324	\$ (11,676.11)
Change in Net Position	\$ 82,480	\$ 73,780	\$ 143,398	\$ 69,617.99
Net Position - July 1, 2013	\$ 6,103,307	\$ 6,103,307	\$ 6,103,307	\$ 0.00
Net Position - June 30, 2014	\$ 6,185,787	\$ 6,177,087	\$ 6,246,705	\$ 69,617.99

See Independent Auditor's Report

Internal Control and Compliance Section

William M. Harmon

Certified Public Accountant

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To The Board of Commissioners
Lauderdale County Water System
Ripley, TN 38063

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the Lauderdale County Water System, a discretely presented component unit of Lauderdale County, Tennessee, as of and for the year ended June 30, 2014 and have issued my report thereon dated December 26, 2014.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Lauderdale County Water System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lauderdale County Water System's internal control. Accordingly, I do not express an opinion on the effectiveness of the Lauderdale County Water System's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that

there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying schedule of findings and recommendations to be material weaknesses. (2014-01 & 2014-02)

Compliance and Other Matters

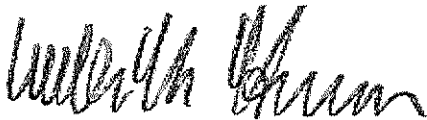
As part of obtaining reasonable assurance about whether the Lauderdale County Water System's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and recommendations as item (2014-3)

Lauderdale County Water System's Response to Findings

The Lauderdale County Water System's response to the findings identified in my audit is described in the accompanying schedule of findings and recommendations. I did not audit the System's response and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



William Harmon
Certified Public Accountant
Ripley, Tennessee
December 26, 2014

LAUDERDALE COUNTY WATER SYSTEM
Schedule of Findings and Recommendations
For the Period Ended June 30, 2014

STATUS OF PRIOR YEAR FINDINGS

- 2013-01 Material Audit Adjustments Required – Material Weakness. Repeated -See Finding 2014-01
- 2013-02 Expenses Exceeded Budget – Significant Weakness. Not Repeated
- 2013-03 Net Operating Loss – Compliance. Not Repeated

CURRENT YEAR FINDINGS

- 2014-01 Material Audit Adjustments Necessary (Material Weakness)

Condition: Material audit adjustments were required for proper financial statement presentation.

Criteria: Generally accepted accounting principles require the Water System to have adequate internal controls over the maintenance of the accounting records and financial statements. The independent auditor cannot serve as an internal control over the System's financial statements.

Effect: The lack of needed material adjustments could jeopardize the fair presentation of the System's financial reports.

Response: The Lauderdale County Water System does not have the resources to hire an employee with the educational level sufficient to ensure that no material journal entries would be necessary for the financial statements to be materially correct at year end. We will provide additional training to our bookkeeper when possible.

- 2014-02 Bank Accounts Not Reconciled to General Ledger (Material Weakness)

Condition: The bank balances on the general ledger were not reconciled to the actual bank account balances.

Criteria: The financial statements should be fairly stated and free of material misstatement before the commencement of the audit

Effect: The lack of reconciliation could jeopardize the fair presentation of the System's financial reports.

Response: Some of the bank account information is delayed in being transmitted to the System. In the future we will strive to reconcile the bank account balances before the commencement of the audit.

2014-03 Some Required 1099 Miscellaneous Forms Were Not Issued (Compliance)

Condition: There were a few instances where 1099 Miscellaneous forms should have been issued to vendors for services rendered to the System.

Criteria: The Internal Revenue Service requires that any vendor being paid more than \$600 in a calendar year be issued a 1099 Miscellaneous form no later than January 31st of the following year.

Effect: The failure to submit these forms timely could subject the System to penalties.

Response: The System has issued 1099 Miscellaneous forms to vendors providing services. Some of the vendors furnish goods and services and we understand that those vendors should be issued 1099 forms in the future and we will comply with this requirement in the future.